

FDIC State Profile

SUMMER 2003

Ohio

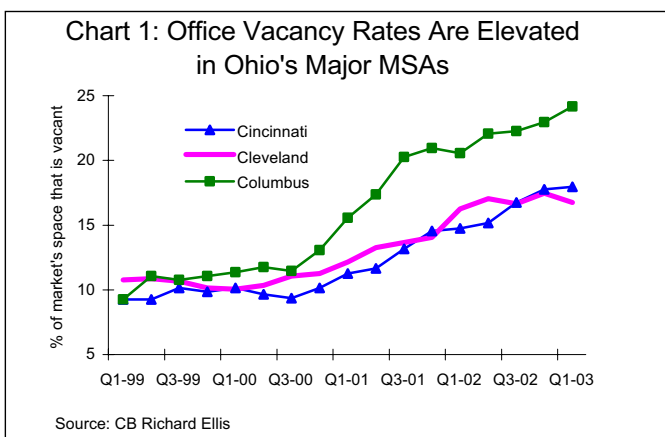
Economic recovery in Ohio is under way but uneven among sectors.

- As recovery from the 2001 recession continues at a modest pace, Ohio's rate of employment loss slowed to 0.7 percent in the four quarters ending first quarter 2003, compared with a 2.5 percent rate of loss in the prior year (that is, the four quarters ending first quarter 2002). In this environment, Ohio's unemployment rate rose to 5.9 percent in first-quarter 2003 after holding at 5.6 percent in much of 2002.
- Not all sectors of the labor market participated equally (see **Table 1**). Manufacturing jobs in first-quarter 2003 declined for the eleventh consecutive quarter, but the pace of loss slowed considerably over the past four quarters. While the state lost manufacturing jobs at nearly the same pace as nationally, Ohio felt the impact more keenly, as manufacturing accounts for over 16 percent of Ohio employment, compared with about 12.5 percent nationally.
- Vacancy rates for commercial and industrial space continue to rise in the state's three largest metropolitan statistical areas (MSAs). Contributing factors are not only some new construction but also the sharp increase in leased space returned to the market, as firms reduce their payrolls, relocate, or fail. The imbalance appears worst in Columbus, where the office vacancy rate of 24 percent in early 2003 was noticeably higher than two years earlier (see **Chart 1**).
- Housing market activity in Ohio remained active through early 2003, as reflected by the large number of construction permits for single-family homes and resales of existing homes (see **Chart 2**). The pace of home price appreciation¹ slowed to around 3.5 percent in the year ending fourth-quarter 2002, a deceleration from the 4.3- to 6.1-percent gains experienced from mid-year 2000 through mid-year 2002.
- Government budget constraints are an issue in most states, and Ohio is no exception. Although total tax collections rose in 2002, their dollar amount in fourth-quarter 2002 was 3 percent lower than two years earlier, before the onset of recession. Some of the stimulus from federal tax cuts and higher military spending likely will be offset by higher fees and taxes imposed by state and local governments, along with cutbacks in their spending and employment levels.

¹Appreciation data reflect average price changes in repeat sales or refinancings on the same properties, based on transactions involving conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac.

	Q1-2002	Q1-2003
Total Employment (nonagricultural)	-2.5%	-0.7%
Goods-Producing	-8.1%	-2.8%
Natural Resources & Mining	-3.2%	-2.8%
Construction	-1.2%	-2.0%
Manufacturing	-9.7%	-3.1%
Service-Providing	-0.9%	-0.1%
Wholesale Trade	-3.9%	-0.4%
Retail Trade	-3.8%	-0.7%
Utilities	-2.9%	-2.0%
Transportation & Warehousing	-5.3%	-2.7%
Information Services	-5.1%	-5.1%
Finance, Insurance, & Real Estate	1.0%	-0.8%
Professional & Business Services	-4.0%	0.4%
Educational & Health Services	2.7%	1.6%
Leisure & Hospitality	0.7%	0.7%
Other Services	1.1%	0.0%
Government	1.2%	-0.5%

Source: Bureau of Labor Statistics



Conditions at Ohio's insured financial institutions changed little in 2002

- Eighty-four percent of Ohio's 315 insured banks and thrifts at year-end 2002 were established community institutions—that is, banks and thrifts with assets under \$1 billion that are neither de novo nor specialty institutions. Only two percent of the state's banks and thrifts are de novo institutions, less

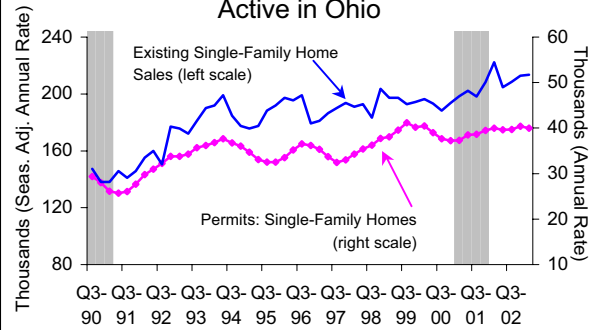
than three years old, and slightly over eight percent have assets exceeding \$1 billion.

- As expected in a state dominated by community banks and thrifts, one- to four-family mortgages comprise the largest share of loans held (see **Chart 3**). Commercial and industrial loans and consumer loans rank next in importance, followed by loans for nonresidential real estate.
- Asset quality at Ohio institutions at year-end 2002 was modestly better than a year earlier. However, the median share of loans on past-due and nonaccrual status remained 26 to 43 basis points higher than at year-ends from 1998 through 2000 (see Page 3, Ohio at a Glance), reflecting the impact of the 2001 recession on some borrowers' repayment abilities.
- The most pronounced deterioration in credit quality in the past three years occurred in commercial-and-industrial loan portfolios (see **Chart 4**). Credit quality at year-end 2002 for the other loan types shown was better than at year-end 2001 but slightly higher than before the recession, with the exception of consumer loans. For this category, the share of loans past-due or nonaccrual at established community banks rose very modestly; developments at large banks and credit card companies dominate the movement shown in the chart.
- Recent loan performance presents an interesting contrast with a decade ago, when the economy also was recovering from a recession. Loans to businesses (commercial and industrial, nonresidential real estate) show a marked improvement relative to the early 1990s, while past-due and nonaccrual rates for loans to households (consumer loans, liens on 1- to 4-family residences) are not strikingly different.

Issues to Watch

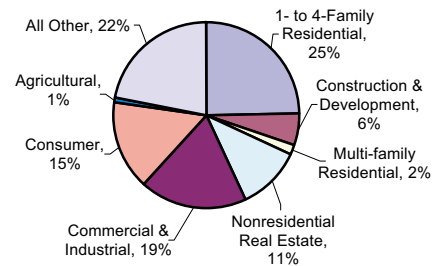
- The state and national economies appear to be on track for continuing, moderate expansion, but the recovery remains vulnerable to economic, financial, and geopolitical shocks that could arise at home or abroad. Lackluster growth nationwide will temper the potential for strong improvement in Ohio, especially in its manufacturing and distribution sectors.
- Banks that rely on deposits from government bodies as a funding source and that hold municipal securities in their portfolios may wish to monitor their strategies and risk tolerances in the current environment, as debt ratings are being downgraded for some state and local government units.

Chart 2: Single-Family Housing Market Remains Active in Ohio



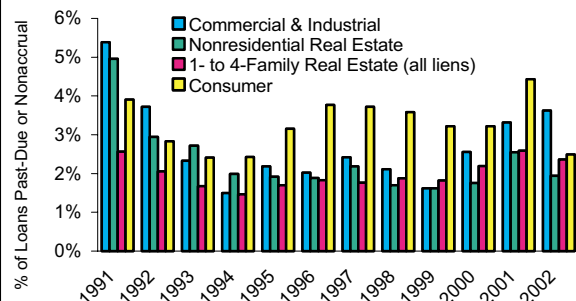
Note: Permits are plotted as 4-quarter moving average
Source: National Association of Realtors, Bureau of Census

Chart 3: Loan Composition at Ohio Banks and Thrifts, Year-End 2002



Source: Bank and Thrift Call Reports

Chart 4: Credit Quality at Ohio Institutions Varies By Loan Type



Source: Bank and Thrift Call Reports, December 31, 2002 data

- Having fared the 2001 recession fairly well, banks and thrifts face loan demand that likely will remain sluggish until economic growth strengthens noticeably. The past year's governance, fraud, and technology breaches (nationwide) highlight the need for monitoring internal controls and routines, internally at banks and thrifts as well as among their contractors and customers.

Ohio at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	315	324	339	354	360
Total Assets (in thousands)	598,730,325	550,684,610	434,245,604	378,751,370	327,110,934
New Institutions (# < 3 years)	7	13	16	13	7
New Institutions (# < 9 years)	25	25	23	22	19
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	9.28	9.17	9.33	9.34	9.40
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	2.17%	2.32%	1.80%	1.74%	1.91%
Past-Due and Nonaccrual > = 5%	29	35	27	26	32
ALLL/Total Loans (median %)	1.02%	1.00%	0.96%	1.01%	1.00%
ALLL/Noncurrent Loans (median multiple)	1.05	1.07	1.44	1.75	1.59
Net Loan Losses/Loans (aggregate)	0.92%	0.93%	0.46%	0.45%	0.61%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	18	15	19	21	8
Percent Unprofitable	5.7%	4.6%	5.6%	5.9%	2.2%
Return on Assets (median %)	0.98	0.90	0.95	0.99	1.06
25th Percentile	0.65	0.56	0.62	0.64	0.76
Net Interest Margin (median %)	3.90%	3.78%	4.00%	4.03%	4.05%
Yield on Earning Assets (median)	6.64%	7.65%	8.06%	7.69%	7.99%
Cost of Funding Earning Assets (median)	2.75%	3.94%	4.26%	3.85%	4.06%
Provisions to Avg. Assets (median)	0.14%	0.13%	0.11%	0.08%	0.10%
Noninterest Income to Avg. Assets (median)	0.52%	0.50%	0.45%	0.44%	0.45%
Overhead to Avg. Assets (median)	2.72%	2.63%	2.67%	2.69%	2.68%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	82.38%	85.25%	88.92%	87.10%	82.21%
Loans to Assets (median %)	69.21%	70.63%	73.70%	71.41%	68.06%
Brokered Deposits (# of Institutions)	58	62	70	71	71
Bro. Deps./Assets (median for above inst.)	4.99%	5.09%	3.52%	1.88%	1.73%
Noncore Funding to Assets (median)	16.62%	16.66%	16.31%	15.76%	13.60%
Core Funding to Assets (median)	70.99%	71.04%	70.59%	71.66%	73.64%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	71	71	71	73	74
National	86	88	92	94	97
State Member	42	43	48	52	49
S&L	61	64	71	78	83
Savings Bank	31	33	30	30	32
Mutually Insured	24	25	27	27	25
MSA Distribution	# of Inst.	Assets (\$thous)	% Inst.	% Assets	
No MSA	135	23,912,016	42.9%	4.0%	
Cincinnati OH-KY-IN PMSA	46	247,715,356	14.6%	41.4%	
Cleveland-Lorain-Elyria OH PMSA	30	197,595,522	9.5%	33.0%	
Columbus OH	28	87,604,934	8.9%	14.6%	
Dayton-Springfield OH	12	2,079,318	3.8%	0.3%	
Mansfield OH	10	1,989,890	3.2%	0.3%	
Youngstown-Warren OH	10	17,012,764	3.2%	2.8%	
Akron OH	8	11,321,711	2.5%	1.9%	
Toledo OH	7	1,207,532	2.2%	0.2%	
Parkersburg-Marietta WV-OH	7	1,664,827	2.2%	0.3%	
Lima OH	6	1,076,073	1.9%	0.2%	
Canton-Massillon OH	4	2,962,262	1.3%	0.5%	
Huntington-Ashland WV-KY-OH	4	332,097	1.3%	0.1%	
Wheeling WV-OH	3	532,157	1.0%	0.1%	
Hamilton-Middletown OH PMSA	3	1,621,496	1.0%	0.3%	
Steubenville-Weirton OH-WV	2	102,370	0.6%	0.0%	